STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion vs. Northern Illinois Gas Company d/b/a Nicor Gas Company Reconciliation of revenues collected under gas adjustment charges with actual costs prudently incurred.	)))))))))))	Docket 11-0763

Direct Testimony of

BOB O. BUCKLES

Manager, Rates

Northern Illinois Gas Company
d/b/a Nicor Gas Company

April 12, 2012

I. INTRODUCTION

Q. Please state your name.

A. Bob O. Buckles.

Q. By whom are you employed and what is the business address?

A. Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor Gas" or "Company") located at 1844 Ferry Road, Naperville, Illinois 60563.

Q. What position do you hold with Nicor Gas?

A. I am the Manager, Rates.

Q. Please summarize your educational background and your experience in the public utility business.

A. I hold the degree of Bachelor of Science, majoring in Energy Resource Management from Eastern Illinois University. I have been employed by Nicor Gas since 1989. From 1989 until 2003, I held positions in Commercial and Industrial Sales, Energy Management Services, Rates, Asset Planning and Development and Gas Supply Operations. I assumed my present responsibilities in the Rate Department in October, 2003.

Q. Would you please describe your present job responsibilities?

A. Yes. My present job responsibilities are primarily preparing and filing documents with the Illinois Commerce Commission (the "Commission") and reviewing Company activities as they pertain to compliance with Company tariffs and the Illinois

Administrative Code. In addition, I have responsibility over various research and analytical requirements within the Rate Department.

Q. Have you ever testified before the Illinois Commerce Commission?

A. Yes, I have filed testimony for Nicor Gas in previous PGA reconciliation dockets, more specifically, Docket Nos. 03-0703, 04-0681, 05-0747, 06-0750, 07-0575, 08-0630, 09-0544 and 10-0691.

II. SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony in this case is to explain Nicor Gas' reconciliation of Rider 6 Gas Supply Cost ("GSC") revenues collected to recover its actual cost of gas distributed, to the extent that such costs are recoverable, as recorded on the books of the Company for the 12 months ended December 31, 2011. My testimony and exhibits are in response to the Commission's Order Commencing Reconciliation Proceedings entered December 7, 2011, in Docket No. 11-0763.

Q. Is any further purpose served by your testimony?

A. No.

Q. Was notice given to the public relative to the filing of the testimony and exhibits in this docket?

A. Yes. Pursuant to the requirements set forth in the Commission's Order, and in accordance with the requirements of 83 Illinois Administrative Code Part 255, Nicor Gas has posted a printed "Public Notice" card with respect to this case in the business offices of the Company, and a similar public notice was published in newspapers of general circulation in Nicor Gas' service territory. A copy of the printed card and verifiable support of publication will be presented during the hearings in this proceeding. In addition, copies of Nicor Gas' testimony and exhibits are on file and available for public inspection in each of the Company's business offices.

III. DESCRIPTION OF RIDER 6, GAS SUPPLY COST ("GSC")

Q. Please generally describe Nicor Gas' Rider 6, Gas Supply Cost.

A. Rider 6 describes the method of computing Nicor Gas' end-user GSC charges, or rates, for the recovery of the Company's Cost of Gas Distributed. In particular, the GSC charges developed under Rider 6 are designed to recover the costs the Company incurs for quantities of gas the Company purchases, transports, stores and sells for the purpose of serving its end-user customers. The purpose and intent of Rider 6 is to promptly pass along to customers, through the GSC charges developed under the Rider, Nicor Gas' net gas supply cost, without markup or profit.

Q. Does Rider 6 comply with the 83 Illinois Administrative Code Section 525 Purchased Gas Adjustment Clause requirements?

A. Yes. The Commission approved the Company's Rider 6 as compliant with the Commission's Purchased Gas Adjustment Clause requirements on October 3, 1995 in Docket No. 94-0403. Additionally, the Commission in Docket No. 04-0779 ordered Nicor Gas to make certain changes to Rider 6.

Q. Please describe in more detail the gas costs that are recoverable through Rider 6.

A. Recoverable gas costs are derived in accordance with Part 525.40 of the 83 Illinois Administrative Code and are specifically identified in Section D of Sheets 59 and 60 of the Company's filed tariffs (Ill. C.C. No. 16 – Gas). In general, the costs incurred by the Company and recovered through Rider 6 are: (1) gas costs based on volumes of gas purchased from suppliers, generally referred to as commodity gas costs; and (2) gas costs other than those defined as commodity related, generally referred to as non-commodity gas costs. Non-commodity gas costs include costs incurred from interstate pipeline companies for transportation and storage.

Q. Please describe the charges used to recover Nicor Gas' costs through Rider 6.

A. Attached to my testimony as Exhibit BOB-2.1 is a list of the primary Rider 6 charges along with corresponding descriptions of what type of costs each charge recovers and the customer classes to which each charge is assessed. As seen in Exhibit BOB-2.1, six gas charge components are employed under Rider 6: the Commodity Gas Cost ("CGC") charge, the Non-Commodity Gas Cost ("NCGC") charge, the Demand Gas Cost ("DGC") charge, the Gas Cost ("GC") charge, the Customer Select Balancing Charge ("CSBC") and the Transportation Service Adjustment ("TSA").

Q. Please describe the Commodity Gas Cost (CGC) charge.

A. The CGC charge reflects Nicor Gas' incurred commodity costs. It is applied to all therms of Company-supplied gas.

Q. Please describe the Non-Commodity Gas Cost (NCGC) charge.

A. The NCGC charge recovers the Company's non-commodity costs on a cent per therm used basis.

Q. What does the Demand Gas Cost (DGC) charge recover?

A. Like the NCGC charge, the DGC charge recovers non-commodity gas costs but on a Maximum Daily Contract Quantity ("MDCQ") basis. The MDCQ is the maximum amount of gas used by a customer in one (1) day. The DGC charge is applicable as a back-up charge to customers on Nicor Gas' system that have elected to transport their own gas supplies, but wish to maintain the availability of Company-supplied gas. Also, it is applied to customers receiving sales service under either Rate 6 - Large General Service, or Rate 7 - Large Volume Service.

Q. Please describe the Gas Cost (GC) charge.

A. The GC charge is the sum of the CGC charge and the NCGC charge. It applies to all sales service rates other than Rate 6 or Rate 7.

Q. Please describe the Customer Select Balancing Charge (CSBC).

A. The CSBC is applied to customers served under Rate 1 - Residential Service, Rate 4 - General Service, and Rate 5 - Seasonal Use Service and who are participating in Nicor Gas' Customer Select program under Rider 15. The CSBC primarily represents the non-commodity gas costs of services used to balance the customer's deliveries with usage. The CSBC includes costs for off-system storage services, certain other non-commodity gas costs and may include costs associated with the purchase of supplies during periods of Operational Flow Orders necessary to maintain the reliability of the system.

Q Are these CSBC costs established within Rider 6?

A. Yes. The CSBC is defined and established within Rider 6. Customer Select participants are billed CSBC charges pursuant to the terms of Riders 6 and 15. Revenue derived from the CSBC is credited to the Company's non-commodity-related gas costs, thereby reducing the NCGC charge.

Q. Please describe the Transportation Service Adjustment (TSA).

A. The TSA is a commodity-related charge or credit applied to the deliveries of all customer-owned gas delivered to Transportation customers, including Rider 25 – Firm Transportation Service and Rider 15 - Customer Select customers. The TSA is currently a credit for the gross revenues derived from providing storage and transportation services under the Company's FERC Operating Statement and Rate 21 – Intrastate Transportation and Storage Services, commonly referred to as Hub services. Sales customers receive an equivalent per therm credit or charge through an adjustment to the CGC component of the GC.

Q Is the TSA established and applied through Rider 6?

A. Yes. As established in Docket No. 04-0779 on October 4, 2005, a per therm credit or charge is established on a monthly basis within Rider 6 to reflect the TSA. Revenues or credits arising through the application of the Transportation Service Adjustment have been included in the commodity-related gas costs.

Q. Is there anything further you would like to explain with regard to how these charges or credits are applied?

A. Yes. While I described generally how each charge or credit is assessed, specific application of these charges and adjustments vary depending on a customer's rate and elected level of backup service. These adjustments may also apply at the calculated level, such as the CGC and the NCGC, or at a percentage of the calculated level, such as the

DGC. In addition, these charges and adjustments may apply to gas supplied by Nicor Gas, as customer-owned gas, through either the customer's total throughput, or a percentage of the customer's MDCQ. In addition, since August 15, 1997, the revenues derived from authorized use, requested authorized use and unauthorized use therms sold to transportation customers flow through as a credit to Rider 6 gas cost and are priced at the higher of Nicor Gas' currently effective GC charge or the Market Price, which is defined in the Company's Terms and Conditions as the average of the low and high prices reported, the "index price", for deliveries of gas to the Chicago Citygate as published in *Platts Gas Daily*.

Q. What procedure does the Company follow to update its Rider 6 charges?

A. In accordance with the provisions of Rider 6, each month Nicor Gas submits to the Commission schedules specifying the amount of each Rider 6 charge. Each schedule specifies the revised amount of each charge, along with a statement of details and data showing Nicor Gas' calculations. The filings are mailed on or before the 20th day of the month prior to the effective month in which the new Rider 6 charges are applied to customer's bills.

Q. Has Nicor Gas filed monthly purchased gas adjustment calculations for 2011 with the Commission?

A. Yes.

Q. How are Nicor Gas' Rider 6 charges applied in billing the Company's customers?

A. Rider 6 charges are effective on the first day of each calendar month. However, as a practical matter, Nicor Gas bills customers on the basis of reading-day cycles that may cover multiple calendar-month periods. For each customer billed, the meter reading dates are the controlling factors. If, for example, a customer's meter is read on May 16th, and had previously been read on April 16th, Nicor Gas assumes that 15/30 of the usage was subject to the Rider 6 charges effective in April and 15/30 of the usage was subject to the charges effective in May. Continuing the previous example, after prorating the amount of metered gas usage between the months of April and May based on the number of days, the appropriate monthly Gas Cost ("GC") is separately applied to each month's prorated usage. Each month's usage and corresponding GC are presented on the customer's bill in a manner that clearly illustrates both applicable GC rates. This method of proration is embodied in the revenue calculations reflected in the Exhibits to this testimony.

Q. Has the presentation of the prorated Rider 6 charges provided to customers changed in 2011?

A. No.

Q. Are Nicor Gas' Rider 6 charges adjusted through any other process?

A. Yes. Rider 6 provides for an annual reconciliation, which is the purpose of this proceeding.

Q. What occurs during the reconciliation process?

A. Generally speaking, as noted above, the revenue the Company recovered under its Rider 6 charges is compared with the Company's actual Cost of Gas Distributed for the preceding year. If Nicor Gas' Rider 6 charges recovered a different amount of revenue than the Company's actual Cost of Gas Distributed, then the Rider 6 charges are set at the level such that the difference is either credited to or collected from customers, depending on whether there was an over- or under-recovery, over the course of the following year.

Q. Is each cost category reconciled?

A. Yes. Pursuant to Rider 6, revenues recovered under the CGC and TSA charges are reconciled with recoverable CGC; and revenues recovered under the DGC, NCGC and CSBC charges are reconciled with recoverable NCGC.

Q. Does proration of the Rider 6 charges or the proration of monthly usage complicate a reconciliation of recovered revenues with allowable recoverable gas costs?

A. No. It is only the total amount of revenues recovered through each Rider 6 charge over the preceding year that is relevant for performing the annual reconciliation.

Q. Is the cost of gas used by the Company during the 2011 reconciliation period reflected in the amount to be recovered through the Company's Rider 6 reconciliation?

A. No. The cost of gas used by the Company is excluded from the Gas Supply Cost charges established in Rider 6. Beginning January 1, 2011, franchise gas volumes subject to Rider 2- Franchise Cost Adjustment, were purchased in conjunction with gas supplies purchased for customers. However, the cost of franchise gas volumes were excluded from the determination of the Gas Supply Cost charges established in Rider 6.

IV. ANNUAL RECONCILIATION OF RIDER 6

Q. Was an annual reconciliation statement for 2011 filed in accordance with Rider 6?

A. Yes. Nicor Gas' annual statement for the year 2011 is being filed simultaneously with this testimony on April 12, 2012 and is attached hereto as Exhibit BOB 2.2.

Q. Please briefly describe the items contained within the filing.

A. Exhibit BOB 2.2 consists of ten (10) pages, the first page of which is a transmittal letter. The next nine (9) pages, or through page 10, represent the Company's annual reconciliation for 2011.

Q. What is contained within the portion of the Company's filing that represents the reconciliation for the year 2011?

A. The first of the nine (9) remaining pages of Exhibit BOB 2.2 is the Independent Auditor's Report issued by PricewaterhouseCoopers LLP for the portion of the filing that represents the year 2011 reconciliation. The next page, or page 3, is a summary calculation of the reconciliation for the year 2011. Exhibit BOB 2.2 pages 4 and 5 contain a detailed explanation of the basis for the summary calculation of the 2011 reconciliation. The next two pages, or pages 6 and 7, represent the detailed reconciliations of the CGC and NCGC, respectively (the "Reconciliation Balances"). Exhibit BOB 2.2 pages 8 and 9 summarize the information included in the Company's monthly filings for the CGC and NCGC, respectively (the "PGA Reconciliations"). The final page is the Verification of Mr. Ralph Cleveland, President of Nicor Gas.

Q. Would you please explain the Summary Reconciliation in more detail?

A. Yes. This statement compares the total revenues recorded under the various charges of the Company's Rider 6 provisions, with the appropriate category of recoverable Cost of Gas Distributed, to arrive at the balance to be credited or recovered under the two individual reconciliation balances. In other words, it sets forth the overall reconciliation calculation, both based on a total of collected revenue against total actual Cost of Gas Distributed, as well as broken down to the CGC and NCGC levels.

Q. Does the Summary Reconciliation indicate that the Company's Rider 6 charges over- or under-recovered the Company's actual Cost of Gas Distributed for the year 2011?

A. The calculation shows a net over-recovery. In particular, the Company's CGC charge over-recovered the CGC by $16,764,198 and the NCGC charge under-recovered the NCGC by $3,388,853. This represents a total amount to be credited to customers for the year 2011 of $13,375,345.

Q. Does the Summary Reconciliation also account for any adjustments included in Commission proceedings regarding any prior reconciliations that the Company has filed?

A. No.

Q. Were there any specific adjustments separately reported in the monthly filings for the 2011 reconciliation year?

A. No.

Q. Would you please describe the Reconciliation Balance for the CGC in more detail?

A. Yes. This is a detailed reconciliation that reflects the monthly amounts of recoverable commodity-related gas costs and revenues which were recorded under the Company's CGC pursuant to Rider 6 for the 2011 reconciliation year.

Q. Has the over-recovered commodity-related Reconciliation Balance of $16,764,198 been reflected in the Company's CGC charges?

A. Yes. The Company has credited $16,764,198. The over-recovered amount has been reflected in the CGC charges as Factor “A” amounts and as an additional reduction to gas charges effective for the months of January and February 2012.

Q. Is the line item identified as “Commodity Related Over/(Under) Collection” on the Reconciliation Balance for CGC (Exhibit BOB 2.2, page 6) the same as the line identified as “Under/(Over) Recovery Balance at 12/31/11” on the PGA Reconciliation for CGC (Exhibit BOB 2.2, page 8)?

A. Yes. The Reconciliation Balance does not include any adjustments for the prior year’s Factor O.

Q. What does Factor O represent?

A. Factor O represents the additional over- or under-recovery for a reconciliation year ordered by the Commission to be credited or collected including interest from the end of the reconciliation year to the Order date in the reconciliation proceeding.

Q. Please describe the Reconciliation Balance for NCGC in more detail.

A. Like the Reconciliation Balance for CGC, this is a detailed reconciliation that reflects the monthly amounts of recoverable non-commodity-related gas costs and revenues, which were recorded under the Company’s NCGC and DGC pursuant to Rider 6 for the 2011 reconciliation year.

Q. Has the balance to be collected of $3,388,853 been reflected in the Company’s DGC and NCGC charges?

A. Yes. The Company has collected $3,388,853. The under-recovered amount has been reflected in the DGC and NCGC charges effective for the months of January and February 2012.

Q. Is the line item identified as "Non-Commodity Related Over/(Under) Collection" on the Reconciliation Balance for NCGC (Exhibit BOB 2.2, page 7) the same as the line item "Under/(Over) Recovery Balance at 12/31/11" on the PGA Reconciliation of NCGC (Exhibit BOB 2.2, page 9)?

A. Yes. The reconciliation balance does not include any adjustments for the prior year's Factor O.

V. EXPLANATIONS - INDIVIDUAL LINE ITEMS

Q. Please explain the revenue item on the Reconciliation Balance for CGC entitled "Excess Storage Charges."

A. Pursuant to tariffs approved in Docket No. 95-0219, Nicor Gas' transportation service customers are allowed to store certain volumes of customer-owned gas in Nicor Gas' storage facilities. When a customer's actual storage balance is in excess of the allowed storage balance, the excess storage balance volume is subject to an Excess Storage Charge of $0.10 per therm. All such Excess Storage Charge revenue billed to customers is credited through the Commodity Related Reconciliation Balance, in compliance with the Commission's Orders in Docket No. 95-0219.

Q. Please explain the revenue item on the Reconciliation Balance for CGC entitled "Chicago Hub."

A. Revenues arising from the sale of services under Nicor Gas' Rate 21 tariff or Nicor Gas' FERC approved Operating Statement are required to be credited back to both Sales and Transportation customers [Order 04-0779 at p. 178] based on throughput. Revenues from the sale of these services are to be included as a credit to Rider 6 and identified in the commodity-related Reconciliation Balance.

Q. Please explain the revenue item entitled "Interest on Refunds," as shown on the Reconciliation Balance for CGC.

A. Interest is calculated on the unamortized balances related to the amortization expenses described above. Pursuant to 83 Ill. Adm. Code 525.50(b), the Company computes the associated carrying charge on unamortized refunds and over/under collections, in effect at the time the amortization is initiated, based on the rate established under 83 Ill. Adm. Code 280.70(e)(1). Interest is included, through Factor A, with the CGC, NCGC and DGC charges, as applicable.

Q. Please explain the commodity-related cost line item shown on the Reconciliation Balance for CGC entitled "Recovery From Hits By Contractor."

A. Recovery From Hits By Contractor represents revenues collected by the Company from contractors whose damage to our facilities has resulted in gas losses. These revenues are shown as a credit to recoverable CGC.

Q. Please explain the commodity-related cost line item shown on the Reconciliation Balance for CGC entitled "Less Franchise Gas Costs."

A. As mentioned previously, beginning in 2011 franchise gas volumes subject to Rider 2-Franchise Cost Adjustment, were purchased in conjunction with gas supplies purchased for customers. This line item reflects the exclusion of franchise gas volumes and the cost of those volumes from the determination of CGC component of the Gas Supply Cost charge.

Q. Please explain the revenue item shown on the Reconciliation Balance for NCGC entitled "Customer Select Balancing Charge."

A. As previously explained, this revenue item shows the revenues collected through the application of the CSBC through December 31, 2011.

Q. Please explain the non-commodity related cost line item shown on the Reconciliation Balance for NCGC entitled "Less Franchise Gas Costs."

A. As explained previously, beginning in 2011 franchise gas volumes subject to Rider 2-Franchise Cost Adjustment, were purchased in conjunction with gas supplies purchased for customers. This line item reflects the exclusion of franchise gas volumes and the cost of these volumes from the determination of NCGC component of the Gas Supply Cost charge.

Q. The Reconciliation Balances for both CGC and NCGC contain a line item entitled "Amortization of Previous Years RB." What do these line items represent?

A. Pursuant to the Commission's Order in Docket No. 94-0403, 83 Ill. Adm. Code 525.50(b) allows the Company to amortize an Adjustment Factor ("Factor A") over a period longer than the Base Period, as defined in 83 Ill. Adm. Code 525.20, but not to exceed 12 months. These line items represent the amortization of the prior year's over- or under-collected gas costs. Prior to the Commission's Order in Docket No. 94-0403, amortization expense was reflected outside the calculation of the Reconciliation Balance.

VI. OVERSIGHT

Q. In conjunction with the submittal of the Annual Reconciliation Filing with the Commission, has the Company's annual reconciliation been the subject of an independent audit?

A. Yes. The 2011 Annual Reconciliation Filing has been audited by PricewaterhouseCoopers LLP, the Company's independent public accountants. Their report is included as part of the Company's filing pursuant to Rider 6. The reconciliation itself is prepared by Nicor Gas employees from several departments.

Q. What type of review procedure is in place for the monthly GSC filings?

A. The Rate, Gas Supply, Gas Supply Accounting and Forecasting Departments contribute to preparation of the monthly filings. The departments are familiar with the terms and provisions of Rider 6, and understand which costs are recoverable through each subsection of the GSC. The Rate Department prepares the final document filed with the Commission. Forecasting, Gas Supply and Gas Supply Accounting are involved in preparation of the documents used to support the filing.

Q. How do these departments provide a check on the accuracy of the monthly filings?

A. These departments must be in agreement with the treatment of costs in the monthly GSC filing.

Q. What other review is performed with regard to monthly filings?

A. On an annual basis, the Company's Internal Auditing Department reviews a monthly filing, corresponding source documents and a copy of Rider 6 as in effect at the time of the filing. This review is designed to ensure that only appropriate costs were included in the filing and that the filing is consistent with the guidelines set forth in the 83 Illinois Administrative Code, Part 525. Internal Auditing's review provides a further check on the inter-departmental review that I have previously described.

VII. CONCLUSION

Q. What is the Company requesting?

A. The Company is requesting that the Commission approve Nicor Gas' GSC charges at levels established in the Company's 2011 PGA Reconciliation. In addition, the Company is requesting that the Commission approve the $13,375,345 customer credit through the Company's Rider 6, GSC charges, which resulted from the over-collection of actual Commodity Gas Cost in the amount of $16,764,198 and the under-collection of actual Non-Commodity Gas Costs in the amount of $3,388,853.

Q. Does this conclude your direct testimony?

A. Yes.